

Message Text

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70

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 EB-11 SPC-03 AID-20 NSC-10 RSC-01

CIEP-02 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 FRB-02

INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 DODE-00

PM-07 H-03 L-03 PA-03 PRS-01 USIA-15 ACDA-19 IO-13

AGR-20 DRC-01 /233 W

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R 142015Z SEP 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4012

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

TREASURY DEPT WASHDC

UNCLAS SECTION 1 OF 2 LONDON 10606

DEPARTMENT FOR FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING SEPTEMBER 14

BEGIN SUMMARY: STERLING CLOSED AT \$2.4200 AGAINST THE

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DOLLAR LAST FRIDAY (SEPT. 7) AND MOVED DOWNWARD THIS WEEK

AMONG RUMORS THAT THE TRADE FIGURES WOULD BE VERY BAD FOR AUGUST. AT ONE POINT, THE POUND FELL BELOW \$2.40 ON THURSDAY (SEPT. 13), BUT PUBLICATION OF THE FIGURES SHOWING A VISIBLE DEFICIT OF 196 MILLION POUNDS WAS MET WITH RELIEF IN THE EXCHANGE MARKETS AND THE POUND CLOSED AT \$2.4160. STERLING'S WEIGHTED DEPRECIATION REACHED 19.21 PER CENT ON MONDAY (SEPT 10) AND AGAIN ON WEDNESDAY, BUT RECOVERED TO 18.81 PERCENT ON THURSDAY (SEPT. 13). THE GOLD PRICE MOVED DOWN THIS WEEK AND CLOSED AT \$99.50 ON THURSDAY IN REACTION TO THE SHOOTINGS IN SOUTH AFRICA. THE UK RECORDED A CURRENT ACCOUNT DEFICIT OF 131 MILLION POUNDS (S.A.) IN AUGUST WITH A VISIBLE DEFICIT OF 196 MILLION POUNDS AND AN INVISIBLES SURPLUS OF 65 MILLION POUNDS. THERE WAS A FURTHER SHARP RISE IN THE UK MONEY SUPPLY IN THE PERIOD TO MID-AUGUST. THE BANK OF ENGLAND QUARTERLY BULLETIN NOTES THAT THE PACE OF EXPANSION IN THE ECONOMY IS SLOWING AND THAT THERE HAS BEEN A SHARP TIGHTENING OF MONETARY POLICY. WHOLESALE PRICES OF DOMESTIC MANUFACTURED GOODS WENT UP 1 PER CENT IN AUGUST WHILE MATERIALS AND FUEL PRICES WENT UP BY 3.9 PERCENT AND NOW STAND 37 PERCENT ABOVE A YEAR AGO. THE CHANCELLOR ANNOUNCED ON SEPT. 11 THAT INTEREST PAID ON SAVINGS DEPOSITS IS TO BE HELD TO 9-1/2 PERCENT TO PROTECT THE BUILDING SOCIETIES FROM FURTHER COMPETITIVE PRESSURE FOR SAVINGS. THE BANK OF ENGLAND HAS INITIATED AN INQUIRY INTO THE 10,500 MILLION STERLING MARKETS IN CERTIFICATES OF DEPOSIT AND INTER-BANK LOANS. INVISIBLE EARNINGS OF THE CITY OF LONDON ROSE TO A NEW PEAK OF ALMOST 700 MILLION POUNDS IN 1972. END SUMMARY.

1. STERLING WAS QUITE UNSETTLED THIS WEEK IN ANTICIPATION OF THE AUGUST TRADE FIGURES WHICH WERE PUBLISHED ON THURSDAY (SEPT. 13). AMID SOME WILD RUMORS--INCLUDING A SUGGESTION EMANATING FROM GERMANY THAT THE DEFICIT WOULD BE 400 MILLION POUNDS--THE DEFICIT OF 196 MILLION POUNDS WAS GREETED WITH RELIEF. THE POUND TRADED MOST OF THE WEEK AROUND \$2.41 AND CLOSED ON THURSDAY AT \$2.4160, DOWN 80 POINTS FROM LAST THURSDAY'S CLOSE. THE WEIGHTED DEPRECIATION AGAINST SMITHSONIAN RATES WAS 19.07 PER CENT LAST FRIDAY (SEPT. 7), ROSE TO 19.21 PERCENT ON MONDAY UNCLASSIFIED

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BUT HAD FALLEN TO 18.81 PERCENT BY THURSDAY (SEPT 13) COMPARED TO 18.63 PERCENT LAST THURSDAY. GOLD FELL ALL WEEK AND CLOSED AT \$99.50 DOWN \$6.00 FROM LAST THURSDAY'S CLOSE.

2. THE UK VISIBLE TRADE DEFICIT WAS 196 MILLION POUNDS (S.A.) WITH RECORD EXPORTS OF 1,012 MILLION POUNDS (S.A., F.O.B., B/P BASIS) AND RECORD IMPORTS OF 1,208 MILLION

POUNDS (S.A., F.O.B., B/P BASIS). WITH AN INVISIBLES SURPLUS OF 65 MILLION POUNDS THE CURRENT ACCOUNT WAS IN DEFICIT BY 131 MILLION POUNDS. FOR THE FIRST EIGHT MONTHS OF 1973 THE CURRENT ACCOUNT DEFICIT STANDS SOMEWHAT OVER ONE BILLION, ONE HUNDRED MILLION POUNDS.

2. LATEST FIGURES ON THE MONEY SUPPLY INDICATE A FURTHER SHARP RISE, ESPECIALLY IN M3 IN THE PERIOD FROM JULY 18 TO AUGUST 15. M3 ROSE BY A SEASONALLY ADJUSTED 2.4 PERCENT TO MID-AUGUST WHICH MAKES THE INCREASE 9 PERCENT OVER THE PAST THREE MONTHS. THE BANK OF ENGLAND BELIEVES THESE FIGURES OVERSTATE THE REAL TREND (WHICH WOULD HAVE PUT THE ANNUAL GROWTH RATE AT 26 PERCENT) BECAUSE: (1) DEPOSIT ACCOUNTS WERE INFLATED THROUGH "MERRY-GO-ROUND" OPERATIONS-THE USE OF OVERDRAFTS TO INVEST ON THE MONEY MARKETS; AND (2) NORMAL SEASONAL ADJUSTMENTS FAILED TO ACCOUNT FOR THE SWITCH FROM PURCHASE TAX TO VAT. M1 ACTUALLY FELL IN AUGUST BUT THE BANK BELIEVES THIS REFLECTS SOME SWITCHING FROM CURRENT (CHECKING) ACCOUNTS TO DEPOSIT (SAVINGS) ACCOUNTS TO TAKE ADVANTAGE OF HIGH INTEREST RATES. M1 STOOD AT 2.6 BILLION POUNDS AND M3 AT 29.6 BILLION POUNDS ON AUGUST 15.

4. BOTH THE BANK OF ENGLAND (BOE) AND THE TREASURY SEE A MODERATION OF GROWTH IN THE SECOND QUARTER. THE BOE, IN ITS QUARTERLY BULLETIN, SEES ACTIVITY IN THE ECONOMY EXPANDING, BUT AT A SLOWER PACE. IT NOTES THAT "PERSONAL SPENDING DURING MAY TO JULY ROSE VERY MODESTLY, IF AT ALL. AND WITH FIXED INVESTMENT STRENGTHENING, AND THE GROWTH OF EXPORTS CONTINUING, THE BALANCE OF DEMAND HAS IMPROVED." THE BOE GOES TO GREAT LENGTHS TO EMPHASIZE THE "SHARP TIGHTENING" OF MONETARY POLICY WHICH TOOK PLACE WHEN IT CALLED FOR SPECIAL DEPOSITS AND RAISED DOMESTIC

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INTEREST RATES IN THE SECOND HALF OF JULY. (DETAILS WILL FOLLOW BY AIRGRAM.)

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INFO OCT-01 EA-11 ISO-00 EB-11 SPC-03 AID-20 NSC-10 RSC-01

CIEP-02 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 FRB-02

INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 DODE-00

PM-07 H-03 L-03 PA-03 PRS-01 USIA-15 ACDA-19 IO-13

AGR-20 DRC-01 /233 W

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R 142015Z SEP 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4013

INFO AMEMBASSY BERN

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AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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5. WHOLESALE PRICES, ESPECIALLY THOSE OF RAW MATERIALS, SURGED AHEAD IN AUGUST. SUBJECT TO PHASE II CONTROLS AND THE PRICE COMMISSION'S CODE, OUTPUT PRICES OF ALL MANUFACTURED GOODS SOLD TO THE DOMESTIC MARKET CONTINUED TO RISE IN AUGUST AT A MONTHLY RATE OF 1 PERCENT. THE AUGUST INDEX STOOD AT 123.9 AS AGAINST 122.7 FOR JULY AND 121.3 IN JUNE (1970 EQUALS 100). THE UPWARD PRESSURE FROM UNCLASSIFIED

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MATERIALS CAUSED AN INCREASE OF ALMOST 4 PERCENT IN THE AVERAGE PRICE OF FUEL AND BASIC MATERIALS BOUGHT BY INDUSTRY. THE INDEX STOOD AT 150.1 IN AUGUST AS AGAINST 144.4 FOR JULY AND 137.2 FOR JUNE (1970 EQUALS 100).

6. THE GOVERNMENT MOVED ON TUESDAY (SEPT. 11) TO HELP THE BUILDING SOCIETIES TO RETAIN THEIR FUNDS. THE CHANCELLOR

ANNOUNCED THAT A LIMIT OF 9-1/2 PERCENT WOULD BE PLACED ON THE RATE WHICH THE BANKS CAN PAY ON THEIR SMALLER DEPOSITS-UP TO 10,000 POUNDS. AT THE SAME TIME, THE GOVERNOR OF THE BANK OF ENGLAND, MR. RICHARDSON, HAS ASKED THE FINANCE HOUSES AND THE BANKS TO RESTRAIN THEIR LENDING TO THE PERSONAL SECTOR. THESE ACTIONS FOLLOW THE MOVEMENT OF FUNDS OUT OF BUILDING SOCIETIES TO OTHER INSTITUTIONS WHICH HAVE BEEN PAYING HIGHER RATES OF INTEREST. THIS TYPE OF OFFICIAL MOVE REPRESENTS IMPORTANT CHANGES IN THE ALMOST COMPLETE FREEDOM WHICH THE BANKS HAVE ENJOYED SINCE THE NEW POLICY OF COMPETITION AND CREDIT CONTROL WAS INTRODUCED TWO YEARS AGO.

7. THE BANK OF ENGLAND IS SETTING UP A WORKING PARTY TO "REVIEW THE ORGANIZATION AND PROCEDURES" OF MARKETS IN STERLING INTER-BANK LENDING AND CERTIFICATES OF DEPOSIT. THE BOE HAD EARLIER THIS YEAR DONE A DETAILED INVESTIGATION INTO THE CD MARKET AND INTER-BANK MARKETS AFTER THE SCOTTISH CO-OP GOT INTO TROUBLE WITH ITS CD DEALINGS AND HAD TO BE BAILED OUT BY THE CLEARING BANKS.

8. THE COMMITTEE ON INVISIBLE EXPORTS REPORTS INVISIBLE EARNINGS BY THE CITY OF LONDON OF 689 MILLION POUNDS IN 1972. EARNINGS FROM INSURANCE TOTALED 424 MILLION POUNDS, FROM BANKING 108 MILLION POUNDS, AND FROM BROKERAGE OF ALL KINDS 59 MILLION POUNDS. THE CITY'S EARNINGS HAVE TREBLED OVER THE PAST SEVEN YEARS, FROM 210 MILLION POUNDS IN 1967.

9. THE FORWARD DISCOUNT ON STERLING WIDENED SHARPLY ON WEDNESDAY (SEPT. 12) IN RESPONSE TO STERLING'S WEAKNESS, BUT NARROWED SOMEWHAT ON THURSDAY (SEPT. 13).

	9/6	9/13	CHANGE
1 MONTH	1.15	1.47-1/2	UP 0.32-1/2

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3 MONTHS	2.85	3.36-1/2	UP 0.51-1/2
6 MONTHS	5.00	5.40	UP 0.40

(ALL FIGURES IN CENTS)

10. LOCAL AUTHORITY DEPOSIT RATES MOVED DOWNWARD ALL WEEK.

	9/6	9/13	CHANGE
1 MONTH	13-1/4	12-3/16	DOWN 1-1/16
3 MONTHS	13-7/8	13-3/16	DOWN 11/16
6 MONTHS	13-11/16	13-1/8	DOWN 9/16

11. EURO-DOLLAR RATES SHOWED NO POSITIVE TREND BUT WERE SLIGHTLY HIGHER ON THURSDAY (SEPT. 13) FROM LAST FRIDAY'S LEVELS (SEPT. 7).

	9/6	9/13	CHANGE
1 MONTH	11-1/2	11-1/2	UNCHANGED
3 MONTHS	11-1/2	11-1/2	UNCHANGED
6 MONTHS	11-1/2	11-7/16	DOWN 1/16

12. THE MINIMUM LENDING RATE REMAINED AT 11-1/2 PERCENT,
UNCHANGED FROM LAST FRIDAY.
SOHM

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CURRENCY CONTROLS, STERLING (CURRENCY), BANK LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 SEP 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
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Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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30 JUN 2005

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Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING SEPTEMBER 14 BEGIN SUMMARY: STERLING CLOSED AT \$2.4200 AGAINST THE
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005